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ABSTRACT

Developed through a literature review and a meeting with California policy makers, the paper examines the local special education variables necessary in developing state special education fiscal policies. The first chapter reviews the shifting focus in state special education and finance systems and finds three distinct phases of public policy and fiscal responses: Phase 1--the benefactor role (in which public education for handicapped children is seen as a charitable activity by the state); Phase 2--the programmatic role (in which the states became the driving force in mandating change in the provision of services to handicapped students); and Phase 3--the facilitator role (in which the state facilitates the local school district's provision of educational programing). Examined in the second chapter are the following eight policy factors and their associated local policy variables (in parentheses): population characteristics (population size, density, increasing or decreasing enrollment, eligibility criteria, interagency shifts, and the magnet effect); individual educational needs (procedural protections, intensity of services, duration of services, multiple agency criteria); service delivery systems (program services, service providers); governance structures (type of governance units, responsibility vs. authority, and special education and the local school budget); system costs (geographic location of the education agency, price level variations, contract negotiations); resources (revenue generating wealth, tas levying authority, availability of community resources, private services, personnel resources); timing and predictability (dollar flow, fiscal stability, and contingency capability); and accountability (state education agency responsibilities, local education agency responsibilities). The final chapter presents four general principles such as the following: the number of children requiring similar special education and related services will influence the per capita cost of delivering such services; and the range of special education services required by exceptional children in a school district and the manner in which such services are determined and provided will influence the cost of delivering such services. (DB)

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LOCAL SPECIAL EDUCATION VARIABLES NECESSARY FOR CONSIDERATION IN DEVELOPING STATE SPECIAL EDUCATION FISCAL POLICIES

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Policy Options Project

December 1980

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INTRODUCTION

A 1973 article in Exceptional Children was entitled "Finance: Without which there is no special education." There is no question about the validity of the title. During the past decade, numerous studies have been undertaken to examine special education finance. During this period, most state financing systems underwent significant change. The issues raised focused on how much does special education cost, how much of that cost should be assumed by the state and what type of formulas produce the greatest good for the least expenditure. While there are numerous issues yet to be explored in relationship to the above questions, we have chosen to explore a question that has had practically no attention in research or in policy--What local variables uniquely affect the cost of educating handicapped children and thus should be considered when developing state special education fiscal policies? While the orientation of this paper is toward the delivery of an appropriate education for each handicapped child, policy makers may find the content and methodology applicable to gifted and talented students.

Handicapped children require special education and related services of different intensity and duration to meet their unique educational needs. To meet such an obligation a state finance system that is reflective of local cost and program variables is essential. This paper is an instrument to assist state and local policy makers in attaining this goal. Since attention must be given to local needs as well as on federal and state requirements in any effort to establish special education fiscal policies, our intent is to identify and describe policy factors that should be considered by policy makers in establishing a comprehensive system of resource allocation.

We reviewed the limited literature and solicited the views of selected state and local administrators. From the above input, we developed a brief paper

attempting to define the parameters of the issue. At that point, we had exhausted theory and research. It was then decided to examine the question in a state. California was chosen, because it was in the midst of transition from one finance system to another and was wrestling with many of the parameters of the issue we had generated in our brief paper. Secondly, California had many of the demographic and organizational variables found in the nation as a whole. A two-day meeting was held in January, 1979 with representatives of the state, school districts, counties, and other experts on special education to determine the validity of the issue and to refine its parameters for further study. The following Policy Options Paper is the product of the above effort.

Appreciation is extended to Dr. Daniel Johnson who coordinated arrangements for the meeting in California. Special thanks to Louis Barber, Vicki Brummel, Al Casler, Ben Dennison, John Flores, Gale Glenn, Scott Gray, Daniel Johnson, James Kakalik, J. Russell Kent, Gerald Peterson and Jerry Thornton who gave of their time to meet with us. Special thanks also to Eileen McCarthy of Syracuse University who under a consultant agreement with the POPs project did much of the literature research and developed an initial draft of this paper.

Chapter I

THE SHIFTING FOCUS IN STATE SPECIAL EDUCATION AND FINANCE SYSTEMS

Throughout the past two decades, educators, parents, policy makers and handicapped individuals have witnessed an expansion of educational programs and services for handicapped children. What started at the turn of the century as a "charity movement" culminated in the mid-1970's with a policy base assuring that all handicapped children have available to them a free appropriate public education, which includes special education and related services to meet their unique educational needs.

With the passage of Public Law 94-142, The Education for All Handicapped Children Act in November of 1975, Congress assured that the educational rights of handicapped children and their parents would be protected. As Ballard (1978) maintains, this Act can be said to have four major purposes:

- To guarantee the availability of special education programming to handicapped children and youth who require it;
- To assure fairness and appropriateness in decision making about providing special education to handicapped children and youth;
- To establish clear management and auditing requirements and procedures regarding special education at all levels of government; and
- To assist financially the efforts of state and local governments through the use of federal funds.

P.L. 94-142 also reaffirmed the positive efforts made by state legislatures and the courts on behalf of handicapped children by establishing a national special education policy base upon which states and local school districts could continue to formulate effective policies to govern the education of handicapped children. Since all states had special education policies predating P.L. 94-142, state policy

makers have had to reexamine and revise their policies so that a consistent and functional delivery system, reflective of federal and state policies, could be developed. Because of the nature of P.L. 94-142, most federal and state policy attention has been given to procedural and programmatic policies with less attention being provided to evaluating the relationship of such policies to the special education fiscal policies of the state.

As a basic policy assumption, one must recognize that the purpose of any fiscal support system is the provision of sufficient resources in a manner that achieves the desired purposes of the system. In designing a responsive special education fiscal system, the purpose is the provision of sufficient resources in a manner that achieves the intent of special education. A special education finance system must be based on relevant local fiscal realities that enable state policy makers to provide for the highly specific and varied service requirements of handicapped children. Due to individual educational needs, handicapped children require services of different intensity and duration. Consequently, state special education fiscal policies must include nontraditional local variables in order to provide the level and manner of fiscal response that will meet the individual educational needs of the persons for whom the policies are intended.

The Three Phases of Public Policy and the Fiscal Responses

In order to examine local variables for consideration in developing state special education fiscal policies so that appropriate special education and related services can be provided to handicapped children, it is important to review the shifts in the role of states and localities in the provision of special education. A better understanding of the policy requirements, coupled with a review of how elements of a fiscal system responded to those mandates, will identify for the reader a shift in policy emphasis for the provision of special education and related services.

From a policy perspective, one might characterize the evolution of the provision of special education in three phases. The following review of these three phases will trace this evolution in an attempt to identify the policy shifts and their relationship to state finance systems.

Phase One: The Benefactor Role. The first phase of policy development may be characterized as one in which the state played the role of benefactor. Historically, public education for handicapped children was perceived by many as a charitable activity of state government. Charity does not imply responsibility; too frequently the state did not formally commit or guarantee the resources. Traditionally, handicapped children were educated by the public schools when sufficient pressure forced them to serve certain children or when there was enlightened leadership and there were sufficient resources to do so. The provision of services was random; the policy base was established as permissive rather than mandatory. This established a discrepancy of services provided handicapped students. As a result, great variance occurred in fiscal planning and management across states.

This era clearly marked the role of permissive programming for handicapped children. Little existed in procedural requirements, program standards or state enforcement. In order to fiscally assist special education, states provided some financial incentives to allow school districts to serve some handicapped children. However, reviews of fiscal commitments in the early 1960's indicates that few dollars were available to serve a small number of children.

Concurrent with this first phase of state fiscal and programmatic activity, it is possible to trace the historical evolution of increased services to handicapped children. Increasingly, parents and professionals were joining efforts to effectively lobby local and state authorities to move from a permissive policy

posture to a posture of mandating charges in the provision of services. This movement led to a second phase in another policy role of the state.

Phase Two: The Programmatic Role. This phase marked an emergence of the states as a driving force in "buying" or mandating change as it related to the provision of services to handicapped students. In response to increased pressure from parent and advocacy groups, many state legislatures passed laws that either mandated or fiscally assisted special education for many categories of handicapped children through the public schools.

States established program standards often for each disability which defined the eligible population, the methods of evaluation, curriculum, organization patterns, class size, teacher qualification, etc. Each disability program had its own policy base, fiscal support level and a relative consistency existed across the state. Children found eligible were given the opportunity to enter the program. Services expanded to the degree that the state was able to purchase or enforce program development at the local level. Fiscal systems were designed to control state initiatives regarding the purchase of services for handicapped children. New administrative alternatives, known as intermediate education agencies, were organized to provide services when an adequate local population base was not available. While state legislatures increased appropriations at the state level, fiscal systems were designed so that specific dollars were keyed to specific programs.

During this phase of policy development, some stimulation of local effort to finance education for handicapped students emerged. Yet, local efforts were constrained under the leadership, or direction, of the states who would set the criteria for "what, how much, and when" change in the provision of educational services to handicapped children should occur. Additional impetus was provided in this area by the increased involvement of the federal government

in the financial support of special education efforts during the late 1960's and into the 1970's. New federal dollars were flowing to the states to be given to locals on a grant basis, reinforcing the programmatic role of the state. Many school districts found that the operation of special education programs, with financial assistance provided by state legislatures, not only permitted the provision of services for handicapped children but also helped improve services for the school population as a whole (Reynolds & Birch, 1977).

As a result of these influences, the state fiscal role increased steadily. By 1971 all states had some legal provisions for state aid to local school district services to handicapped children beyond general school aid. Wilken (1976) notes, however, the increase in state aid for special education in the early 1970's was far short of meeting the unserved needs of handicapped children. Major shortcomings of the programmatic approach were its failure to build responsibility at the local level and its focus on disability based programming rather than programs to meet the needs of an individual child.

A Time of Transition. Recognizing the limitations of existing policy with regard to education of handicapped students, the pressure was increased on state legislatures to expand the mandates of educational services to each handicapped child. In 1972, the state legislatures in Massachusetts and Tennessee set forth as state policy comprehensive public policy mandates for handicapped children. At the same time, the courts were issuing similar mandates which called for a shift of policy from programmatic services for some handicapped students to the mandate for all handicapped children to have the right of an appropriate education. The landmark Pennsylvania Association for Retarded Children v. Commonwealth of Pennsylvania case marked the beginning of the role of the courts in establishing this policy base for all handicapped students.

This period was culminated in 1975 with the passage of P.L. 94-142 establishing a minimum policy base for each state. The impact of these policy events can be characterized as the third phase of policy change for the states.

Phase Three: The Facilitator Role. Clearly, in an attempt to meet the increased public policy mandates, the role of the state is shifting from one of purchaser of programmatic change to a role of facilitator of change. This change in state role occurred as the concept of special education became an established right of all handicapped children. New demands are placed on the states. While responsibility to assure the provision of appropriate services to each handicapped child remains with the state, the local school districts are now the vehicle for determining a child's educational program. The states' primary role is one of establishing and enforcing criteria to deliver special education and related services. The onus of service delivery falls directly to the localities to assure the policy mandates are fully implemented for each handicapped child.

State special education fiscal policies should reflect the shift in emphasis from providing services along program lines to the evolving practice of assisting local school districts through state financial assistance to deliver an appropriate education to all handicapped children. While levels of state support have generally increased, the nature of this support is still reflective of the second programmatic phase, and thus not parallel to the present phase of special education policy. This situation has resulted in the delivery system, in many instances, being caught between requirements of individually designed appropriate special education and related services, and fiscal systems based upon state program structures.

The evolution of special education funding systems at the state level need to parallel the changes in development and delivery of services to handicapped children. Throughout the past decade, mandates for the appropriate education for

handicapped students has been in a state of rapid evolution and expansion, yet state fiscal systems have been unable to parallel this growth. The following contributing factors or trends support this conclusion:

- The implementation of new legislative mandates has proceeded in response to the intent of legal guarantees irrespective of new fiscal support;
- The costs of constant units in special education services have been rising rapidly;
- Accurate data on financial costs of special education services are unavailable from existing accounting systems;
- Attempts of major reform of general education finance have left the question of special education finance on a shifting foundation; and
- Special education by its nature is oriented to specific individual pupil needs for which general fiscal systems based on average group needs are insufficiently fluid or flexible.

Analysis of the policy conflicts between programmatic mandates and the statewide fiscal systems response indicates the need for change. What exists today is the reality that Phase Three public policy mandates require states to consider unique local variables affecting special education to assure a level of state fiscal support that will enable LEA's to meet the unique educational needs of a handicapped child. It is the purpose of this policy options paper to identify and define those local variables that need to be considered in developing state special education policies which are necessary for consistency with Phase Three policies. These variables need to be considered by state policy makers in designing appropriate special education fiscal policies.

A Selected Review of Critical Factors. A great deal of information exists in the body of literature relevant to school finance. However, examination of that literature indicates that little, if any, emphasis is placed on the unique local special education variables that policy and decision makers must consider to assure that state special education fiscal policies are designed to meet Phase

Three public policy mandates for handicapped children. What follows, then, are some limited findings which begin to suggest the variables for considerations.

The Concept of Equity. An underlying principle of education finance that has particular bearing on the financial structure of special education is the concept of equity (Burrello & Sage, 1979). Two factors must be recognized in the pursuit of equity:

1. The fiscal resources from which education can be supported.
2. The needs of any population of children.

These two factors, characterized as resources and needs cannot be expected to be evenly distributed in any state educational system. Historically, however, unequal resources have been confronted more actively than the problem of unequal needs. Burrello and Sage (1979) suggest that the only way to treat children equally is to disperse funds unequally to meet children's unequal needs for differing objectives or outcomes. Complex factors which are often more political than economic have been responsible for the seemingly endless struggle for an acceptable equalization formula.

> The opposing political philosophies concerned with local autonomy versus centralization, working in interaction with factors of relative wealth and population to be educated, create a perennial tug of war over the issue of equity. (Burrello & Sage, 1979. p. 246)

What exists today is the reality that school districts are not equal. Therefore, state special education fiscal policies must reflect this phenomonen and be based on local variables. Inequity of resources, and the need to do something about it has been acknowledged, but has not been resolved. The inequity of need has only been partially confronted. Some recent equalization formulas have attempted to reflect that certain localities bear the burden of a disproportionate number of handicapped children. Similarly, the disproportionately high cost of specialized programming in sparsely populated areas is also reflected. Attempts

at rectifying inequity of an individual child's needs have been rare. The result is that children with greater than average need have not received a fair share of the educational dollar. The National Legislative Conference Special Committee on School Finance pointed out:

> Equality does not mean equal treatment. The crucial value to be fostered by a system of public education is the opportunity to succeed, not the uniformity of success. While all are equal under the law, nature and other circumstances yield advantages to some, while handicapping others...Equal treatment of unequal does not produce equality...A concept of equal educational opportunity should reflect a sensitivity to the difference in costs and variations in need...(Education Commission of the States, 1972, p. x).

Brewer and Kakalik (1979) note that the particular phrase "equal educational opportunity" for handicapped children

> ...does not mean either equal resources or equal objectives for both handicapped and non handicapped children. In general, the educational resources and goals established for each handicapped child will be different and will be based on the child's needs and potential. (p. 42)

Distribution Factors. It is imperative that the design of special education fiscal policies include those factors which allow for the implementation of services to handicapped children. Burrello and Sage (1979) suggest recognition of the following points as critical factors regarding any fiscal response to the variation in resources:

- Children with special needs, by definition, are a minority group existing as a small but significant portion of the whole population;
- The exact proportion will vary significantly from one subcategory of special need to another, and from one location to another, without regard to local economic availability to provide support; and
- The cost of educational services to meet these needs will be proportionally greater than the cost for children at large, based on an uncertain and varying ration utilizing:
  a. Georgraphic locale.
  b. Subcategory of special need.
  c. Particular patterns of service delivery employed. (p.247)

The authors further suggest variance in size of population, location, economic support, and service delivery as considerations in a finance system.

Kakalik (1979) has posed a suggested framework for use by decision makers to structure the flow of the various factors, beginning with the needs of handicapped children, through the distribution of available funds. These various stages are identified:

- Determination of what characteristics are to be considered exceptional and what special services are needed by children with various sets of those characteristics;
- Determination of total size and geographic distribution of the handicapped children population and the amount and geographic distribution of various services needed by that population;
- Determination of which type of public or private educational and noneducational agency is to provide which services to handicapped children;
- Determination of the program arrangements educational agencies should make to provide the services for which they have responsibility;
- Determination of the resources needed to implement those programming arrangements;
- Determination of the total level of funding required to provide all necessary services; and
- Determination of the method to be used to allocate funds to localities. (Kakalik, 1979, pp.4-5)

Differing types of criteria on which to base special education finance decisions have been suggested by Bernstein et al. (1976). The authors note that the following criteria should be viewed as relative concepts:

- Adequacy of funding in relation to need in terms of quantity and quality of services;
- Equity of fund distribution;
- Anticipated effects of service delivery in regard to quality of life and future economic benefits;
- Comprehensiveness of services and programming in relation to need;

- Control and coordination of services;
- Compatibility; and
- Efficiency. (Bernstein et al., 1976)

A review of the limited selected literature suggests that variability of needs and resources, coupled with traditionally non-fiscal considerations serve to form the bases of elements of a fiscal system to respond to Phase Three policy mandates. Analysis of the aforementioned literature indicates that while using different terminology, many of the factors presented can be grouped in similar headings. For purposes of this policy options paper, the following eight (8) factors emerge as significant variables for consideration in development of special education fiscal policies responsive to the educational needs of handicapped children. These factors may be characteristically described as variations in:

(1) Population--size, location and nature of the population to be served;

(2) Needs--special education and related services needs of the population;

(3) Service Delivery Systems--program elements necessary to maintain and deliver needed services;

(4) Governance Structures--varying organizational systems having a role in delivery services;

(5) System Costs--cost elements consistent across the system uncontrolled by special education;

(6) Resource--economic capacity of governance structures to generate needed resources;

(7) Timing and Predictability; and

(8) Accountability.

Further definition and analysis of each of the eight (8) factors will be presented in Chapter II.

Chapter II

POLICY FACTORS AND VARIABLES INFLUENCING STATE SPECIAL EDUCATION FISCAL POLICIES

Chapter I explored the evolution of three phases of public policy for the education of handicapped children and identified three traditional roles that states have assumed in responding fiscally to those mandates. A review of literature and further field related research identified eight policy factors that should be considered when developing state special education fiscal policies. There is a need for policy makers to develop state special education policies that are considerate of local variables to assure local fiscal capacity to provide a free appropriate education for each handicapped child.

The intent of this second chapter is to examine in detail the local variables that should be considered in the development of state special education fiscal policies. These policy factors and variables include: (1) Population Characteristics, (2) Individual Education Needs, (3) Service Delivery Systems, (4) Governance Structures, (5) System Costs, (6) Resources. (7) Timing and Predictability, and (8) Accountability. Practical examples of how local variables within these eight factors influence state special education fiscal policies are described for the purpose of eliciting appropriate policy options and alternatives.

POLICY FACTOR #1: POPULATION CHARACTERISTICS

School districts will vary in the number and type of handicapped children needing special education. Population characteristics are those factors in a school district which influence the size and nature of the handicapped child population to be served.

Policy Development Variables:

1.1 Population Size. The number of children requiring similar service needs will influence the per capita cost for meeting the needs of the children. A

school system with twenty children needing speech correction will have a higher per capita cost then a district with forty such children. State funding systems are often based on averages which presume a certain population size. Often under Phase Two policies, districts having an insufficient number of children to trigger adequate state resources simply refused to serve the children. Phase Three policies will require that the child be served regardless of the cost, thus placing such districts in a position of having to bear a greater proportion of per pupil cost than more populous districts.

1.2 Density. The density of the population to be served influences the types of services needed and the cost of providing the services. Transportation is a major cost in rural areas because of mileage traveled. Transportation is also a major cost in urban areas where few miles are traveled, but time consumed is substantial. These and other density variables need to be accounted for in state funding systems.

1.3 Increasing or Decreasing Enrollment. The special education population is fluid. Children go in and out of special education depending on their needs, not on the basis of calendars or funding cycles. Thus, there is an obligation to serve a child even if that child enters the system after cut off dates for determining state aid. This is a significant fiscal problem in rapidly developing communities with a growing school enrollment. At the same time decreases in population do not have a direct correlation to decreases in cost. The cost for supporting a class of eight severely retarded children will not be reduced significantly if the number of children is decreased to six. Funding systems based solely on numbers of children place unique burdens on districts with fluctuating enrollment.

1.4 Eligibility Criteria. Although most states set fairly tight standards for who is eligible for special education programs, there is bound to be local variability. Slight variations, particularly in the areas of more mild handicapping

conditions will result in significant variation in the number of children to be served. Age is also a variable of this factor. One district encourages handicapped youth to leave school by age 18, another encourages those who have not completed their education to stay beyond or until age 21. Both may be complying with state policies but will incur significantly different fiscal needs.

1.5 Interagency Shifts. Certain variables in the state or community outside of the control of the local school district have dramatic effects on the size of the population to be served. The transferring of responsibility for educating handicapped children from an institution to a local school district will have a major fiscal impact on that district not shared by other districts. Another example is that a group home of 15 students opens with an expectation that the children be served immediately. Most fiscal support systems do not provide sufficient contingency funds to account for sudden population "surges."

1.6 Magnet Effect. There is a propensity for school districts with a reputation for exemplary services to attract a disproportionate number of handicapped children to their district. This situation has been well documented with respect to such districts adjacent to military bases because of the military's compassionate transfer program. Similarly, parents have moved from areas with little community services to districts having exemplary community services. The magnet effect has resulted in some districts having greater fiscal burdens because of the lack of services in other districts. Such districts are particularly penalized by state fiscal policies placing caps or ceilings on the number of children in a district who can be reimbursed for special education.

POLICY FACTOR #2: INDIVIDUAL EDUCATIONAL NEEDS

Phase Three policies require extensive child find efforts, comprehensive evaluations, meetings with parents and apporpriate record keeping. These are all

costs incurred prior to placement. For districts with a shifting population, a rapidly growing population, or for districts just beginning special education programming, these costs are significant. Often state fiscal support systems do not cover pre-placement costs or account for variability between districts in this regard. For example, more highly educated parents become more involved in the evaluation and placement process thus consuming greater staff time and increasing cost. Minority children require specialized evaluations and communications with the home that require unique resources. Rural districts may have to purchase highly specialized evaluative services while urban districts may readily have them available in the community.

Policy Development Variables:

2.1 Procedural Protections. Phase Three policies provide procedures for resolving conflicts between schools and parents over matters pertaining to the appropriate services needed by the child. Initial studies have found that the use of these procedures has been limited, but costly when utilized. Further, the studies have shown that the procedures are more often utilized in some districts than in others. One district reported that it rarely brought a dispute with a parent to a hearing because state funding did not assist in such costs, but the state would support the service costs even if the district felt them to be inappropriate. The costs of procedural protections need to be considered in a state fiscal system.

2.2 Intensity of Services. Under Phase Two policies, state financial systems often provided support to locals based on the disability classification of the child and the assumed presumptions of service level that accompanied the disability. Thus, there was a higher support for emotionally disturbed children then for retarded children. Some states modified this approach by adding

the variable of severity. Consequently, severely retarded children received greater financial support than mildly retarded children.

Another approach utilized by states was to classify children by service modes. Children in special classes received greater support then children in resource rooms. First, under these approaches there were tendencies to classify children or place them in service modes having the higher level of support. Second, they do not account for the variability of the children's needs for related services beyond classroom instruction. Third, within each of these groupings, individual children vary greatly in the amount of service they need. For example, if two learning disabled children are in a resource room, one may require two hours of special instruction per week, while the other may require twelve hours per week. In a large district these variables may average out, but in a smaller district they may result in financial disincentives to appropriate programming.

2.3 Duration. Handicapped children vary in the duration of the special education and related services that they require, and will vary at the point in the year that it will be determined that they need or no longer need specific services. Fiscal policies that do not consider such variables often force the district to keep children from services they need or keep them in services they no longer need just to satisfy state fiscal or program requirements.

2.4 Multiple Agency Criteria. Often the services handicapped children need are provided by other agencies in the community. Special education has a long history of working cooperatively with agencies such as vocational rehabilitation, mental health, crippled childrens services, public health, etc. In addition to public supported services, the private sector has often contributed. For example, when service organizations have supported certain services, private insurers have often paid for medically related services. Despite the fact that Phase Three policies encourage the continuation and expansion of such relationships, many of

the services provided at no cost to the schools, have been withdrawn or are now provided with charge. Since many of these other agency services are governed by state policy, the state is in the position to reverse such trends and assure effective utilization of community resources. Further, inconsistency of policies and procedures across agencies often makes the use of multiple agency resources impossible or often results in duplication. For example, a child who has been determined to be retarded by one agency may not meet the criteria for retardation in another agency. One agency may not be able to accept evaluation reports from another agency because of the types of personnel conducting the evaluation, thus necessitating a second costly evaluation. Every roadblock to efficient utilization of community resources increases the service costs to the local schools.

POLICY FACTOR #3: SERVICE DELIVERY SYSTEMS

Local variables critical to the development of state fiscal policies for special education are intertwined with the service delivery system. Variations in service delivery arrangements have significant influence on both special and general education finance policy reform. Variations in service delivery occur as a function of variations in population characteristics, pupil needs, and often as a factor of what resources exist as opposed to those resources that are needed. For purposes of this paper, service delivery is defined as a continuum of program alternatives consisting of multiple levels of service intensity ranging from occasional intervention such as indirect consultation for regular school personnel to highly specific full time special education instruction and related services. The service delivery system consists of those elements necessary to maintain and deliver needed services.

When analyzing any service delivery system, two major components emerge which have implications for the development of special education fiscal policies. The

first is the nature of the location and number of alternative services to be provided. The second component focuses directly on the service providers.

Policy Development Variables:

3.1 Program Services*. A variety of instructional and related service alternatives must be available in every education agency to meet the varied needs of handicapped children. Typically, wide variations among districts in both the number and type of programming arrangements are found. The need for multiple levels of service can be met in several ways, usually at differing costs. These variations in programs and services are often closely related to the structure of the funding system. For example, the degree to which a particular program or service is available is generally a function of the level of funding available for that program. The opposite should occur. That is, the funds should be available for the particular programs or services necessary to meet individual needs.

In addition, it should be recognized that like services may have differing costs attached as a result of where the services are delivered. For example, it is conceivable that physical therapy costs could be higher or lower in a hospital setting as opposed to a public school facility. A number of other variables impact on the cost of service delivery. They include but are not limited to the following:

- Variations in program standards;
- Negotiated contractual agreements;
- Inservice professional development;
- Number, type, and condition of facilities;
- Availability of instructional media, equipment and materials; and
- Transportation distances and arrangements.

3.2 Service Providers. Just as variations exist in the types of programs and services necessary to provide for individual needs, there are also variations in who may provide those services. For instance, many states mandate human service

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*It is not the intention of the authors to describe the various models of special education delivery. The reader is referred to either the Special Education Policies Manual (SEAP) or the Policy Options Paper regarding LRE. Both are available from CEC.

agencies to provide education for some handicapped children within the state. Decisions regarding the service provider should not be influenced by the funding system. Flexible programming may be constrained by a funding system which does not reimburse certain service providers adequately.

It should also be recognized that variations occur regarding the type and kind of personnel who provide services. Wide variations in costs exist across a group of specialists, i.e., special education teachers, therapists, psychologists, psychiatrists, etc. The degree to which aides or paraprofessionals are utilized affects costs. It should be recognized that the availability or lack of qualified personnel in either rural areas or for low-incidence populations may have a higher cost factor in the recruitment and/or hiring of personnel.

Due to the extreme variations in programs and service providers that exist across communities, it becomes critical that the appropriate service delivery systems respond to individual needs of handicapped children. Delivery systems must be structured to permit an almost infinite number of variations in type and intensity of instructional and related service alternatives. Therefore, the funding system should consider variables that will permit decisions to be made about program alternatives without significant financial disincentives entering into the decision.

POLICY FACTOR #4: GOVERNANCE STRUCTURES

In response to public policy mandates for handicapped children, states have created policies to allow for multiple governance structures to exist within their state. These structures are variables affecting the cost of delivering appropriate special educational services to handicapped children.

Policy Development Variables:

4.1 Type of Governance Units. While specific state policy reflects the

alternative purposes and structures that may exist within a state, some common organizational units emerge. Within any given state, there exist local education agencies (organized on a city, town, regional or county geographic basis), intermediate units (known usually as cooperatives, BOCES, or collaboratives), state operated and supported schools, and private schools that public agencies use on a contractual basis.

It must be recognized that different state policies articulate differing responsibilities for the various types of governance structures. For example, some intermediate units are formally or informally organized; some provide only special education; and some exist only to provide administrative and personnel planning support rather than provide any direct services to students. It must also be recognized that multiple types of governance units may exist within the same state. In California, operating under both the standard and Master Plan program, the following four types of governance units were identified: a) single district b) county district c) cooperatives and d) responsible local agency service regions. When a variety of service units are permitted, it is imperative that fiscal policies promote decisions by local districts that will allow the appropriate decisions regarding the type of unit to be used. At the same time, it should be recognized that any inherent fiscal advantages in the operation of a particular unit may be counter productive to decisions about children.

4.2 Responsibility vs. Authority. Delineation of these two concerns is critical to determine who has the fiscal responsibility to pay for services. For example, in some states districts that have the authority "may" provide a particular program, whereas the district that might have the responsibility "shall" provide a particular program. The potential for fiscal manipulation of programming can be decreased if responsibility and authority are clearly defined. Similarly, the responsibility without the authority may hinder effective programming. Written policies should articulate decision making power and specify in

writing all administrative agreements to provide services (SEAP, 1977). Fiscal policies should allow for the flexibility in arrangements and provide mechanisms to reimburse costs expended.

Another consideration in decisions regarding placement and governance structures is the Phase Three policy regarding placement of children in the least restrictive environment. A district may realize a financial advantage by placing a child in a program operated by a county or regional service agency outside the home district. In this case, a disincentive to district programming may exist in the funding system and may result in a more restrictive than necessary placement. On the other hand, a funding system which provides adequate start-up costs and financial rewards for within district programming might encourage placement in an appropriate setting. The choice of a particular governance structure should be made on the basis of meeting handicapped children's educational needs, not for fiscal advantage.

4.3 Special Education and the School Budget. Several investigations have shown that a major variable in the cost of special education among districts is the degree to which general education costs are charged to special education fiscal systems. For example, in some instances, general administrative costs or a portion thereof are charged against the special education budget. Fiscal policies should state the appropriateness of these determinations rather than leaving to arbitrary decisions the amount and kind of services chargeable to special education. Without such determination, funds thought to be sufficient for child needs may be in reality deficient.

POLICY FACTOR #5: SYSTEM COSTS

Recognition of variations in system costs are considered critical to flexible programming in a state fiscal system for special education. These are defined as costs that impact on special education primarily to the extent that special education is a part of the total education finance domain, are not controlled by special

education considerations, and in most instances have similar significance for both special education and general education finance.

Variations in costs are trememdous, and vary for the same services across a state. Certain cost items may bear more heavily on special education budgets than on other aspects of the education system. These costs are closely tied to the intensity of individual needs of handicapped children. In any discussion of system costs, it is difficult to isolate a particular variable that raises or lowers costs. However, three phenomena and their effects on system costs underscore the importance of considering each in relationship to the flexible nature of a fiscal system.

Policy Development Variables:

5.1 Geographic Location of the Education Agency. In recognizing variance of systems costs, one of the most obvious distinctions breaks out in rural/urban/suburban areas. Generally, transportation costs tend to be higher in rural areas. Climate variation presents another factor. Many districts within a state present a variation in temperature ranges which results in different heating and cooling charges. It is understandable that schools located in a desert area of a state may incur higher air conditioning costs than a similar district located in a mountain region.

Personnel costs can also be expected to vary with geographic location. For instance, teachers'salaries tend to be higher in urban areas than in rural areas. As was previously noted, additional costs may be incurred in the recruitment and retention of qualified personnel in remote or "less desirable" areas.

These variations in system costs are not a function of geographic region alone. However, cost differentials must be considered in a state finance system. The implication for state special education fiscal policies is that allocations based on a state "average" will be inadequate for certain geographic locations

(i.e., densely populated urban areas, etc.). A funding system that recognizes this with a "differential" approach is more likely to facilitate appropriate programming arrangements.

5.2 Price Level Variations. It is recognized that geographic location contributes to variations in price levels across the county. In addition, variations in price levels affect system costs. For instance, the cost of borrowing (debt service) is a function of fluctuation in interest rates. The cost of food is constantly rising which results in higher cost to the system for serving lunches. Price level variations in gasoline contribute to increases in the cost of transportation. Not one school district could have accurately forecasted the increase in fuel shortages and rate increases that exist today. Similarly, fuel costs to the system vary as the price of heating oil does. Variations in the cost of health insurance contribute to variations in the cost of personnel benefits to the system.

Price level variations are closely related to the rate of inflation. Many state fiscal systems are sensitive to increases in the cost of living and provide annual adjustments. Clearly, cost of living increases are necessary to maintain programs at their existing level. However, in addition to a single adjustment for cost of living, state special education fiscal policies should consider variations in the other system costs discussed due to price level differences.

5.3 Contract Negotiations. System costs vary as a result of contract negotiations. The most significant of these is personnel salaries and benefits. Frequently, there is a wide variation among district salary schedules in a given state. A state finance system should be sensitive to these variations in the cost to systems for personnel salaries. This is particularly important in states where local taxing authority is restricted, since personnel costs account for a large part of a local education agency's budget. It should also be recognized that districts are, in a sense, negatively rewarded for hiring experienced personnel, i.e., costs are higher for someone with 10 years experience as opposed to a person with no experience.

Other negotiated items such as length of school day/year, class size and inservice/release time for teachers present additional cost variations that influence an agency's capability to provide appropriate educational services. It is also important to recognize the costs inherent to contract negotiations to the district, which may vary significantly and a portion of those costs may be charged to special education. While the impact of variations in system costs on special education funding may be negligible in some instances, consideration of them is necessary since they are part of the general finance system. It is important to recognize the cost to the system for such services. A state fiscal system must include a measure of predictability which will allow for forward fiscal planning to meet the cost variations.

POLICY FACTOR #6: RESOURCES

When considering resource variation as a factor in a state fiscal system for special education, it is useful to classify the issues as they relate to either primary resources or secondary resources. For purposes of this paper, resources are defined as the aggregate quantity of revenue producing wealth (primary resources) which determine the fiscal capactiy of an educational system to purchase personnel, services, and facilities (secondary resources).

Those issues directly related to fiscal capacity (primary resources) are variations in revenue generating wealth, and tax levying authority of educational agencies. Secondary resources are those which are determined by the availability of primary resources and since their presence varies according to wealth, they exert an indirect effect on the education fiscal system. These include variations in availability of existing community resources, e.g., private schools and personnel resources.

Policy Development Variables:

6.1 Revenue Generating Wealth. Variations in revenue generating wealth

affect any fiscal system which is dependent upon a revenue generating base. Local resource capacity is an element not usually considered in special education finance. However, it has direct bearing on the capability of a fiscal system to provide for flexible programming. A specific example of variations in revenue generating wealth is the circumstances leading to Serrano type decisions. Local revenue generating wealth was, and still is, a major determinant of the quality of a child's education. Attempts at equalization of resources in many state fiscal systems have fallen short of the specific intent. California's fiscal situation which has resulted from Proposition 13, will certainly serve to limit the impact of variations in revenue generating capacity of localities. This may be characterized by a policy shift from a local fiscal base to an ever-expanding state base as the primary revenue source.

6.2 Tax Levying Authority. Certain school districts have enjoyed statutory provision for special assessments, tax over-rides, or other permissive taxation not applicable or available in other districts. Tax levying authority has typically varied among educational agencies as a matter of state policy. The presence or absence of these varying taxing authorities bear significantly on resource availability. Another example which bears directly on the fiscal system is the failure of the voter to pass bond or tax levies. The implication to state fiscal systems is significant. Deficits resulting from the loss or lack of increased local tax levying authority, create the need for additional funding from the state, particularly in light of Phase Three policies that require services to be provided on the basis of need and not on available resources.

6.3 Availability of Community Resources. These secondary resources can be expected to vary considerably. While strongly affected by general wealth and taxing authority, a community's support of health and social services facilities, both public and private, tends to make a major difference in the opportunities

for special education populations to receive services related to, and/or a part of special education. For example, if a clinic or rehabilitation center is available at which a handicapped child can receive certain services, this creates a major difference in the degree to which the public school may be expected to provide such services. This, in turn, has major implications for a state level special education fiscal system. Even where other community services are private (e.g., private schools, practitioners, human service agencies) they constitute a resource within the total service system which should be considered in determining what will be needed to provide and fund an optimal service system. State special education fiscal policies should recognize the variability of community services and not contain disincentives which might discourage the use of already existing resources.

6.4 Private Services. As set forth in state and federal policy, the use of private services may be used as a reasonable and sometimes necessary alternative for an educational agency to fulfil its public policy mandates on behalf of appropriate education for handicapped students. As a viable secondary resource, the use of private services directly interacts with state and local fiscal systems. Variations in availability and cost of appropriate services have been documented. A fiscal system should account for these variations in such a manner as to facilitate the use of this resource by education agencies when determined an appropriate option.

6.5 Personnel Resources. As previously noted, variations exist in the costs and availability of differing personnel required to provide special education and related services. As personnel resources are a secondary resource, the fiscal capacity or primary resources of the education agency determine when and if certain personnel can be provided. In order to assure that the quality of the child's education is not dependent upon local wealth or revenue generating capacity, but

rather upon the wealth of the state, the state fiscal system must recognize and attempt to rectify these often unequalizing circumstances.

POLICY FACTOR #7: TIMING AND PREDICTABILITY

These two components play an essential role in the policy options available in the design of state fiscal policies. With the increased policy mandates and the changed role of states, a shift of state responsibilities requires setting procedural and criteria standards, monitoring the programmatic behavior of districts, and the compliance issues surrounding implementation of federal and state policies on behalf of handicapped children. Increasingly, as a facilitator of change, it is incumbent upon states to assure that the fiscal systems are inherently capable of forwarding the needed dollars out to local districts in a timely and efficient manner.

Policy Development Variables:

7.1 Dollar Flow. Currently a number of different disbursement patterns exist in states dollars to local districts. The issue of concern, however, is not the merits or lack thereof of any one of the disbursement patterns. Generalized fiscal difficulties result when reimbursement procedures are based on a previous year's count of the number and type of special education services delivered, rather than current services. This requires local districts to bear the financial responsibilities of the up-front costs of special education.

An alternative to facilitate implementation would be a fiscal system that could provide dollars on a "forward-funded" basis, rather than on an end of the year basis. Perhaps another alternative exists to provide needed dollars periodically to local agencies for expenditures. This would result in quarterly payments. State fiscal policies that contain the capacity to generate a dollar flow would provide continuous incentives to local agencies to provide educational services.

7.2 Fiscal Stability. Generally states assume a higher percentage of the cost of special education than they do for general education. The greater the percentage the states assume, the greater is the local dependence on these resources and the greater is the need for these resources to be provided in a predictable and stable manner. Delays or shifts from agreements have greater implications for special education than general education. Similarly, instability of services upon which special education is dependent such as resource centers, intermediate units, mental health, etc., creates instability in the special education services since there are rarely other services available at budgeted costs and since failure to provide the service would constitute violation of Phase Three policies.

7.3 Contingency Capability. It was generally assumed that budgets contained a small reserve to cover unknown contingencies. State and local budgets often contained a small dollar amount reserved for purposes, either unknown or unanticipated at the time the budget was developed. This made a certain amount of sense as the usual budget development season is December- February for the forth coming fiscal year. In an era of tight fiscal restraint, these extra dollars are being pared down to a minimum. In states with a Proposition-13-like mandate, local tax levies are often no longer available for this purpose.

The elements of Timing and Predictability of available dollars become critical at this juncture. States and localities are currently forced to "guesstimate" the numbers of students they will serve. Difficulty exists when budgets are generated based on predictions of who will be served versus the expenditures incurred in the actual number of handicapped children served.

Since September, 1977, states and localities have geared up to meet the responsibility of appropriately serving all identified handicapped children. What has presented and will continue to pose fiscal "unknowns" pertains to the

unpredictability of the numbers, scope, and expenses incurred in educating those students requiring out-of-district placements. Fiscal data are available to suggest that these placements (private schools, residential settings, etc.) are far more expensive than the average per-pupil expenditure or any statewide average cost figure.

POLICY FACTOR #8: ACCOUNTABILITY

Existing fiscal systems at the state and local levels have always contained a fiscal audit component to assure appropriate use of allocated dollars. To meet the current public policy mandates, it should be recognized that programmatic accountability is now required by both states and localities and that such procedures have costs.

Policy Development Variables:

8.1 State Education Agency Responsibilities. Phase Three policies place responsibility for assurance of policy compliance with the state. Local school districts and other public agencies are the direct line implementors of the policies. States must therefore gather information from local school districts and other public agencies to assess programmatically whether services are being provided appropriately and whether the system is procedurally sound. Further, states must audit to determine whether funds obligated to local schools and other agencies were expended for the purposes stated. The costs associated with these responsibilities are directly related to other variables described in this paper, such as population characteristic and service delivery systems.

8.2 Local Education Agency Responsibilities. The increased demand by the state for information placed substantial resource requirements on local schools in order to meet the demand. The capacity of local agencies to respond will vary,

as will the cost of that response. It is one thing to manage data on ten children and another for ten thousand. Rarely have such costs been considered in state special education fiscal policies.

Chapter III

SUMMARY OBSERVATIONS

We have identified and documented the need for policy makers to consider local special education variables in developing state special education fiscal policies. Such policies must be based on local demographic and organizational variables to meet the unique educational needs of handicapped children. To date, most state fiscal policy attention has been given to developing formulae for local entitlements - without sufficient attention being given to considering the relationship of local special education cost variables to the special education fiscal policies of a state.

This paper has attempted to begin bridging this policy gap. But our efforts are only a beginning. It is our hope that this paper will stimulate further research and discussion, and will enable administrators, educators, and service delivery personnel to meet the educational needs of handicapped children on a local level through the development of realistic state fiscal policies.

To encourage further research and development in the area of special education finance, we have compiled four general a posteriori principles from the data presented throughout this paper and have identified some determinants to assist policy makers in conceptualizing and defining specific issues on a state or local level. Such an approach enables policy makers to anticipate the positive and negative effects of existing or proposed policies. These principles with their accompaning determinates will be presented below.

BASIC PRINCIPLES INFLUENCING THE COST OF SPECIAL EDUCATION AND RELATED SERVICES

Special education is a subsystem of a comprehensive program of state resource allocation in general and regular education in particular. Policy decisions both intrinsic and extrinsic to special education influence the cost of meeting the

unique educational needs of handicapped students. The implications of this reality are becoming more apparent daily as policy makers face difficult decisions in times of limited resources and economic austerity.

To assist policy makers in their decision making process, this compilation of principles and determinants is intended to summarize the interrelation of the policy factors and variables presented throughout this paper. It indicates the intricacies involved in policy development or amendment, as well as the anticipated effects of the principles upon special education costs. The determinants have been cross referenced to the policy development variables described in the first two chapters of this paper.

Principle #1: The number of children requiring similar special education and related services will influence the per capita cost of delivering such services.

Determinants:
- Population Size and Density (1.1 and 1.2)
- Eligibility Criteria (1.4)
- Interagency Shifts (1.5)
- Magnet Effect (1.6)

Principle #2: The range of special education services required by exceptional children in a school district and the manner in which such services are determined and provided will influence the cost of delivering such services.

Determinants:
- Scope of Services Required (2.1)
- Procedural Variables (2.1)
- Intensity of Services Required (2.2)
- Duration of Services Required (2.3)
- Service Pattern Variations (3.1)
- Service Provider Variations (3.2)
- Organizational Patterns (4.1 and 4.2)
- Community Resources (6.3)

Principle #3: Special education is a subsystem of the education system and as such its costs will be affected by education system cost variables.

Determinants:
- Management (4.1 and 4.2)
- Budget Design (4.3)
- Transportation (5.1)
- Salaries and Conditions (5.2 and 5.3)
- Facilities (6.3 and 6.4)
- Contingency Capacity (7.3)

Principle #4: The special education costs of a school district are significantly affected by external variables beyond the direct control of the school district.

Determinants:

- Price Variations (5.2)
- Wealth (6.1)
- Tax Authority (6.2)
- Fiscal Distribution Patterns (7.1, 7.2, and 7.3)
- State and Federal Requirements (8.1 and 8.2)

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